

WATER/WASTEWATER

SUMMARY OF RATE INCREASES*

Water

- 2007: 12% increase
- 2008: 6% increase

Sewer

- 2007: 19% increase
- 2008: 6% increase

} Projected to generate an additional \$4 million in revenue.

Metro Pass-through

- 2007: 9.2% increase
- 2008: no increase

Impact on Average Customer (assuming 7 ccf)

- No changes in the rate structure.

Sample Residential Monthly Bill	2006	2007	Change From Prior Year	2008	Change From Prior Year
City Water (Assuming 7 ccf)	\$19.65	\$22.01	\$2.36	\$23.33	\$1.32
City Sewer	\$9.19	\$10.94	\$1.75	\$11.59	\$0.66
King County Metro	\$25.60	\$27.95	\$2.35	\$27.95	\$0.00
Total Water/Sewer Bill	\$54.44	\$60.89	\$6.45	\$62.87	\$1.98

Regional Bill Comparison

Monthly Residential Bills	Total
Skyway WSD	\$ 78.94
Redmond - UPD (Recommended City Rates)	\$ 77.41
Kirkland	\$ 74.13
Redmond - UPD (Current City Rates)	\$ 73.20
Issaquah	\$ 72.18
Coal Creek Utility District	\$ 69.00
Bellevue	\$ 67.00
Renton	\$ 66.11
Soos Creek WSD	\$ 64.12
Sammamish Plateau WSD	\$ 64.10
Mercer Island	\$ 62.98
Redmond - City (Recommended City Rates)	\$ 60.89
Tukwila	\$ 58.94
Redmond - City (Current City Rates)	\$ 56.79
Auburn	\$ 54.60
Kent	\$ 48.64
Assumptions:	
Meter Size:	3/4"
Monthly Water Consumption:	7 ccf
Monthly Sewer Volume:	7 ccf
Monthly Metro Charge (2007):	\$ 27.95

*Information from FCS Rate Study presented to Council on August 29, 2006

WATER/WASTEWATER

DESCRIPTION OF NEW PROGRAMS

Wellhead Protection Program Engineering Technician (1.0 FTE; \$0)

- Converts supplemental staff position into an FTE to provide ongoing support to the Wellhead Protection Program.
- Funding of \$125,700 provided by reallocating professional services money to salary and benefits within existing budget.

DESCRIPTION OF DEBT

Water/Sewer Capital projects

- Total debt: \$8.5 million (\$4.3 million in 2007 and \$4.2 million in 2008)
 - Term: 10 years
 - Interest rate: 6.25%
 - Debt Service: \$321,416 in 2007 and \$637,080 in 2008
- Addresses capital needs in the City service area which includes well improvements, tank and pump station improvements, trunk sewer improvements, and downtown sewer upsizing.

WATER/WASTEWATER

EXCERPTS FROM THE FCS GROUP RATE STUDY

Purpose of the Study

- Identify financial requirements in the 2007-2008 budget.
- Determine rate impacts projected for 2007-2008 in the City service area.
- Analyze utility fiscal policies & practices.

Overview of Key Utility Financial Elements

- Utility revenues set to fully recover costs.
- City & UPD are separate enterprises.
- Depreciation funding for capital reinvestment.
- Meet financial performance objectives.

Rate Sufficiency & Financial Performance: “Four Tests”

1. Positive Net Operating Income

- Net operating revenues & expenses.
- Excludes debt service & interest earnings.

2. Positive Net Income

- Includes interest earnings on operating & capital funds and debt service interest payments.

3. Positive Cash Flow

- Includes total debt service cost.
- Excludes restricted capital fund interest earnings.

4. Compliance with Bond Coverage Requirements (Assumed 1.25 Minimum Coverage Ratio)

- There are currently no revenue bonds outstanding, but bond issuance is planned for 2007-2008.

City Water Rate Requirements for 2007-2008

Water Rate Increase Options:

A. Upfront increase: 18.5% in 2007.

B. Annual increases (recommended): 12.0% in 2007; 6.0% in 2008.

Primary Drivers For 2007 Water Rate Increase	Rate Impact
Lower Revenue Assumption Based On “Normal” Year Demand (From Analysis Of Long-Term Water Demands)	+ 3.0%
New Debt Service Costs	+ 2.4%
Depreciation Costs	+ 1.9%
Higher Wholesale Water Costs	+ 3.5%
Change In Other Expenses	+ 1.2%
Total	+ 12.0%

Key Water/Sewer Capital Projects

Planned Capital Projects	Projected Cost (\$ Millions)	
	2007	2008
Well Improvements	\$ 5.5	\$ 3.0
Tank & Pump Station Improvements	1.9	1.5
Overlake Trunk Sewer Improvements	1.8	0.3
Downtown Sewer Upsizing	0.2	1.9
Other	1.9	1.8
Total	\$11.3	\$ 8.5

Financing Strategy	2007	2008
Projected Expenditures (\$ Millions)	\$11.3	\$ 8.5
Cash Funding	\$ 7.0	\$ 4.3
Debt Funding	\$ 4.3	\$ 4.2
Total Annual Debt Service	\$ 321,000	\$ 637,000
Total Annual Depreciation Cost	\$2,609,000	\$2,778,000

Note: Assumes a lag in the realization of capital costs – 20% of budgeted expenditures are assumed to occur in the following year.

Proposed Policy Modifications

- Increase minimum operating reserve balance from 45 days to 55 days of operating expenses.
 - Fund from existing fund balance (≈ \$350,000 increase).
 - Helps protect against water revenue risk.
- Adjust depreciation funding policy
 - Current policy: depreciation transfer = depreciation expense.
 - Proposed policy: depreciation transfer = depreciation expense less debt principal repayment.
 - Consistent with financial reporting of profit/loss.
 - Helps offset the rate impacts of new debt.
 - Helps ensure that existing customers do not subsidize growth.

Rate Study (cont.)

City Sewer Rate Requirements for 2007-2008

Sewer Rate Increase Options:

- One-time increase:
 - 26.5% in 2007 (about \$2.44 per month).
- Or annual increases (recommended):
 - 19.0% in 2007
 - 6.0% in 2008

Primary Drivers For 2007 Sewer Rate Increase		Rate Impact
New Debt Service Costs		+ 3.6%
Depreciation Costs		+ 1.9%
Change In Other Expenses		+ 13.5%
Total		+ 19.0%

Additional Significant Factor for Customer Bills:

- KC Metro increase of 9.2% (\$2.35 per month).

City Water & Sewer Service Area: 2007 -2008 Forecasted Performance

Water & Sewer Combined 2007 / 2008 Performance				
	Financial Test #1	Financial Test #2	Financial Test #3	Financial Test #4
	Net Operating Income	Net Income	Net Cash Flow	Coverage
Operating Revenue				
Water Rate Revenue	\$ 18,387,619	\$ 18,387,619	\$ 18,387,619	\$ 18,387,619
City Sewer Rate Revenue	5,425,062	5,425,062	5,425,062	5,425,062
Revenue From Rate Increase	4,052,286	4,052,286	4,052,286	4,052,286
Regional Connection Charges	3,716,109	3,716,109	3,716,109	3,716,109
Metro Revenue	17,481,923	17,481,923	17,481,923	17,481,923
Miscellaneous Revenue	642,952	642,952	642,952	642,952
Total:	\$ 49,705,951	\$ 49,705,951	\$ 49,705,951	\$ 49,705,951
Operating Expenses				
Purchased Water	\$ (7,543,247)	\$ (7,543,247)	\$ (7,543,247)	\$ (7,543,247)
Regional Connection Charges	(3,716,109)	(3,716,109)	(3,716,109)	(3,716,109)
Metro Service	(17,481,923)	(17,481,923)	(17,481,923)	(17,481,923)
Other Operating Expenses	(14,713,457)	(14,713,457)	(14,713,457)	(14,713,457)
Depreciation Expense / Transfer	(5,386,467)	(5,386,467)	(5,127,289)	(N/A)
Total:	\$ (48,841,202)	\$ (48,841,202)	\$ (48,582,024)	\$ (43,454,735)
#1 Net Operating Income	\$ 864,748	\$ 864,748	(N/A)	(N/A)
Non-Operating Revenues (Expenses)				
Interest on Debt		\$ (970,247)	\$ (970,247)	(N/A)
Interest Earned (Fund 401)		341,433	341,433	341,433
Interest Earned (Fund 403)		106,414	-	106,414
Total:		\$ (522,400)	\$ (628,814)	\$ 447,847
#2 Net Income		\$ 342,349	(N/A)	(N/A)
Other Resources (Expenditures)				
Debt Service Principal			\$ (259,179)	(N/A)
Reserve Funding			-	(N/A)
Total:			\$ (259,179)	\$ -
#3 Net Cash Flow			\$ 235,934	(N/A)
Connection Charge Revenue				\$ 2,230,000
Net Revenue Available for Debt				\$ 8,929,063
Total Debt Service				\$ 1,229,426
#4 Coverage Realized				7.26
Calculated Water Rate Increase, per Financial Test #3			18.72%	
Calculated Sewer Rate Increase, per Financial Test #3			26.14%	

Cash flow needs drive the projected rate increases.

Positive cash flow provides additional resources for rate management.

WATER/WASTEWATER OPERATIONS AND MAINTENANCE**REVENUE REPORT**

WATER/WASTEWATER	2005-2006 Budget	2007-2008 Budget	Budget to Budget Difference	2-year % change
Beginning fund balance	\$4,246,907	\$4,205,017	(\$41,890)	-1.0%
Water Sales	\$18,878,973	\$21,214,264	\$2,335,291	12.4%
Sewer Sales	\$5,291,937	\$6,650,702	\$1,358,765	25.7%
Metro sales	\$15,635,376	\$17,481,922	\$1,846,546	11.8%
RCFC Revenue	\$1,545,000	\$3,827,592	\$2,282,592	147.7%
Debt Proceeds	\$0	\$8,486,094	\$8,486,094	n/a
Investment Interest	\$111,005	\$129,300	\$18,295	16.5%
Other	\$857,498	\$1,010,105	\$152,607	17.8%
Grand Total	\$46,566,696	\$63,004,996	\$16,438,300	35.3%

WATER/WASTEWATER OPERATIONS AND MAINTENANCE

EXPENDITURE REPORT

	2005-2006	2007-2008	Budget to	2-year %	1-year %
WATER/WASTEWATER	Budget	Budget	Budget Difference	change	change
Salaries					
Salaries and Wages	\$4,888,627	\$5,020,951	\$132,324	2.7%	1.4%
Overtime	\$70,000	\$70,000	\$0	0.0%	0.0%
Supplemental Help	\$39,000	\$50,000	\$11,000	28.2%	14.1%
Other Compensation	\$2,000	\$2,000	\$0	0.0%	0.0%
Salaries Total	\$4,999,627	\$5,142,951	\$143,324	2.9%	1.4%
Benefits					
MEBT	\$402,003	\$395,847	(\$6,156)	-1.5%	-0.8%
PERS	\$95,293	\$350,856	\$255,563	268.2%	134.1%
Benefits - Medical Premiums	\$923,523	\$922,616	(\$907)	-0.1%	0.0%
Benefits - Worker's Compensation	\$96,339	\$114,255	\$17,916	18.6%	9.3%
Other Benefits	(\$118,154)	(\$55,304)	\$62,850	-53.2%	-26.6%
Benefits Total	\$1,399,004	\$1,728,270	\$329,266	23.5%	11.8%
Supplies					
Water Purchases	\$6,102,540	\$7,197,247	\$1,094,707	17.9%	9.0%
Water Purchases RCFC Pyts	\$1,500,000	\$3,716,109	\$2,216,109	147.7%	73.9%
Small Tools/Equip/Hardw/Softw	\$160,078	\$134,034	(\$26,044)	-16.3%	-8.1%
Office and Other Supplies	\$33,000	\$30,000	(\$3,000)	-9.1%	-4.5%
Repairs/Maintenance Supplies	\$808,900	\$763,000	(\$45,900)	-5.7%	-2.8%
Supplies Total	\$8,604,518	\$11,840,390	\$3,235,872	37.6%	18.8%
Professional Services					
Professional Services	\$798,955	\$493,540	(\$305,415)	-38.2%	-19.1%
Legal Services	\$47,000	\$20,500	(\$26,500)	-56.4%	-28.2%
Communications	\$114,500	\$121,800	\$7,300	6.4%	3.2%
Travel	\$41,400	\$35,900	(\$5,500)	-13.3%	-6.6%
Utilities	\$325,197	\$325,001	(\$196)	-0.1%	0.0%
Repairs - Outside	\$322,218	\$364,000	\$41,782	13.0%	6.5%
Other Services and Charges	\$508,029	\$625,000	\$116,971	23.0%	11.5%
Professional Services Total	\$2,157,299	\$1,985,741	(\$171,558)	-8.0%	-4.0%
Intergovernmental Services					
Intergovernmental	\$1,012,258	\$1,069,943	\$57,685	5.7%	2.8%
Metro Wst Water Treatment	\$15,635,376	\$17,481,923	\$1,846,547	11.8%	5.9%
Debt Service	\$301,153	\$1,229,431	\$928,278	308.2%	154.1%
Intergovernmental Services Total	\$16,948,787	\$19,781,297	\$2,832,510	16.7%	8.4%
Interfund Transfers					
Transfer to CIP - Bond Proceeds	\$0	\$8,961,481	\$8,961,481	n/a	n/a
Transfer to CIP - Depreciation	\$4,685,755	\$5,127,288	\$441,533	9.4%	4.7%
Interfund - General Fund	\$1,941,737	\$2,067,109	\$125,372	6.5%	3.2%
Interfund - Info Technology	\$634,879	\$1,012,344	\$377,465	59.5%	29.7%
Interfund - Insurance Premiums	\$201,570	\$242,244	\$40,674	20.2%	10.1%
Interfund - Fleet	\$522,191	\$693,136	\$170,945	32.7%	16.4%
Interfund - Other	\$155,870	\$488,979	\$333,109	213.7%	106.9%
Interfund Transfers Total	\$8,142,002	\$18,592,581	\$10,450,579	128.4%	64.2%
Capital Purchases Total	\$216,679	\$218,132	\$1,453	0.7%	0.3%
Ending Fund Balance					
Ending Fund Balance	\$3,983,031	\$3,570,538	(\$412,493)	-10.4%	-5.2%
Salary and Benefit Contingency	\$115,749	\$145,096	\$29,347	25.4%	12.7%
Ending Fund Balance Total	\$4,098,780	\$3,715,634	(\$383,146)	-9.3%	-4.7%
Grand Total	\$46,566,696	\$63,004,996	\$16,438,300	35.3%	17.7%